

CRANSTON SCHOOL COMMITTEE MEETING

TUESDAY, DECEMBER 7, 2004

WILLIAM A. BRIGGS BUILDING

845 PARK AVENUE

PUBLIC WORK SESSION: 7:00 P.M.

EXECUTIVE SESSION: IMMEDIATELY FOLLOWING

PUBLIC WORK SESSION

MINUTES

A work session of the Cranston School Committee was held on the evening of the above date at the William A. Briggs Building in the Reed Conference Room with the following members present: Mr. Cardarelli (arrived at 8:10 p.m.), Mr. Drager (arrived at 7:37 p.m.), Mr. Eramian, Mr. Lupino, Mr. Palumbo, and Mrs. White. Mr. Stycos was absent due to a work commitment.

Mrs. White called the work session to order at 7:15 p.m. The roll was called. Mrs. White noted for the record that Mr. Stycos notified her last week that he would be unable to attend this meeting because of a work commitment. Mr. Lupino noted that Mr. Cardarelli would be arriving late; he had a prior engagement.

I. Presentation on Health Coverage Analysis

Mrs. Ciarlo stated that Mr. Kevin Walsh, the school department's health care consultant, would make a presentation to the School Committee because a question arose from the committee regarding health care costs. Sometime ago, administration alerted the committee that the district's health care costs were trending higher, and it was still early in the season. They were trending higher than the year before last. Unfortunately, this did not happen the year the school department went to court. At this work session, it was not the intent to discuss what would be put forth regarding contractual discussions. The committee would discuss where the school department is right now versus where they were last year. At some point in time, there may be a short fall; and there is nothing in the budget to make up the difference. The committee and administration will then approach the City indicating that due to budget cuts the district can't make the health care costs. Administration asked Mr. Walsh to join this session and to prepare for the committee a comparison of trends now versus where they were and also to report on what has contributed to the rising costs of health care.

Mrs. White stated for the record that School Committee member-elect Deborah Greifer was present at this work session.

Mrs. White asked when the committee would notify the City of a shortfall in the health care account, and Mrs. Ciarlo responded that the City would be notified as soon as the school district is quite sure that this is legitimately happening. The first alignment of the budget was done in November so that the committee knows where this account stood as of November. If it appears that this trend is continuing, she felt that after the first of the year, it might be wise to inform the Mayor and City Council what is happening. If this account had not been cut as deeply as it was, the district might be in a far better position. In the past, if the district wasn't able to make it, there was money in the textbook account, but that is now gone. That money was used to purchase texts, supplies, and materials for this year.

Mr. Walsh distributed to the committee a funding analysis report, a copy of which is attached for the record. Mr. Walsh referred to the funding analysis portion of the report and indicated that this report detailed the enrollment count of each health plan as of September 2004. He was not sure if all of the subscribers were picked up in this report who may have enrolled in the fiscal year yet. Some employees were hired after September, and they may not be reflected in this report. This section of the report showed the applicable funding rate, commonly known as the monthly premium rate. In most cases, the school contribution is 100%. Mr. Walsh explained this report in detail. He noted that some of the employees do make a contribution under

the Classic Blue Cross. He also noted that there is a very small Blue Chip population of four subscribers which is approximately a \$43,000 twelve-month cost. There is one subscriber who is on the Plan 65 which is a \$7,000 charge. There are 320 United Health Plan subscribers estimating \$3 million charges for them. For Delta Dental, there are a little over 2,000 subscribers with annual charges expected to be slightly under \$1.6 million. By adding up all the subtotals, the projected school funding for this fiscal year is slightly under \$21 million. Mr. Balducci commented that the claims from this point forward could be \$2.1 million. Mrs. Ciarlo added that if the committee did not have to cut what Mr. Balducci projected for health care, the district probably could have made it. Mr. Balducci responded that if the district wasn't cut as deeply as it was, they probably would have made it. Mrs. Ciarlo also noted that if the projections were taken and funded properly, the district would not be facing a short fall.

Mr. Walsh referred to page 1-C which is the four-year history of the enrollment counts showing the Blue Cross plans moving from the Fall of 2001 to the Fall of 2004 from 1,241 subscribers to 1,571 subscribers. These are individual subscribers and family subscribers. The family subscribers are counted as one. Mr. Walsh explained this in detail. A rule of thumb in this market place is between \$10,000 and \$12,000 per subscriber per year as an estimated annual cost. With increased enrollment, the district would expect increased costs as well. With regard to someone retiring, the cost would reflect the retiree plus the replacement hire which could be a

single or family membership as well. Mr. Lupino noted that when a teacher retires, that person receives individual plan health care. If that person is married, that person is not allowed to

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continue the family plan difference but they can purchase an individual plan. Mr. Walsh explained that the retiree who may have been a family subscriber could become two individual subscribers. That retiree could purchase health care for his or her spouse. One retirement can become three individual plans. One family subscriber could retire which could create two individuals subscribers in the rehire. Mr. Lupino asked if the information provided reflected this information, and Mr. Walsh said that it was reflected in his numbers. He also noted that enrollment growth is impacting cost as well.

Mr. Walsh referred to page 2A which explained the actual claims experience for the Blue Cross Blue Shield subscribers. He noted that for last year the months of July through October compared to the other eight months were relatively favorable claims experience. In this fiscal year, the figures are just the opposite. It was approximately \$3.8 million for those four months last year. It is approximately \$4.9 for the same months this year. This approximates a 30% increase in claims. The prior fiscal year, 2002-2003, for the same four months the total was \$3.1 million. The three-year trend for these four months was \$3.1 million, \$3.8 million, and \$4.9 million. Mr.

Balducci noted that using last year as an example, when he and Mr. Cofone sat down with city administration in the spring to come up with a final health budget, there were nine months of actual figures. For the first nine months of 03-04, the school district was doing very well. For April, May, and June, unfortunately, the district did not do as well. They were using the first nine months to project for the last three months, and that is part of the problem.

Mr. Walsh referred to the Quarterly Account Summary and indicated that the claims experience for the city and the school department is in one hopper. This report is city and school combined. The first four pages reflect July through September 2003 and the last pages are for July through September 2004. Mr. Walsh explained that there are a total of 13,595 bodies, and for the same period on the next report there are 13,912 bodies. There are approximately 300 more men, women, and children being insured combined for city and school department. On page 2, Mr. Walsh explained the comparisons for both periods. He pointed out that the pharmacy line for percent of total claims was 26% meaning that one quarter of every dollar for the members is being spent on drugs, and this is a significant number. In many articles, it is noted that prescription drug costs are going through the roof increasing by approximately 20% a year. In approximately 3-1/2 years, the \$950,000 quarterly charge will have doubled. This will be the impact of prescription drugs on the health insurance program. Drugs were a huge piece of this puzzle. He noted that PM signified per member per month.

Mr. Walsh referred to page 4 for both periods. This report outlines every member's claims activities isolating large losses by those given members. The critical piece that stood out for him that for the 03 period the group had 15 members who incurred greater than \$10,000 in claims totaling \$398,000. For the 04 period, there are 25 members

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incurring over \$800,000 in claims. There are a larger number of members as a group incurring larger claim dollars.

Mr. Walsh referred to page 4 of the 2004 report and highlighted that inpatient at \$1,029,117, is \$400,000 more than the prior year's three-month period which is an increase of 67%. Therefore, the group's inpatient charges in one quarter from one year to the next went up 67%. The school department's own group's inpatient charges for a four-month period this year versus last year is upwards of \$580,000 more or an increase of 46%. Inpatient utilization is a major factor in driving costs upward. Mrs. White asked if this was a norm in a business that has this many employees, and Mr. Walsh responded that typically private sector employees are younger and healthier whereas the public sector employees tend to be employed by the group longer trying to get a pension. The private sector employees come and go more often. Although he did not have

specific numbers, he indicated that municipal sector groups are less favorable than private sector groups. Mrs. White asked if in another city or town with a comparable number of employees if this would be a trend for them, and Mr. Walsh responded that he didn't have this information readily available, but he could obtain it. He believed that in the pharmacy and inpatient categories, Cranston was very comparable to other municipal groups. Every group is different as is every year. This information does not surprise him; it is fairly expected. Mrs. White added that it made sense that if people are sicker the pharmacy amounts would be up as well. Mr. Walsh noted that the cost of a given prescription drug from last year to this year has risen 20%.

Mr. Walsh referred back to his first report, page 2B, BCBSRI Claims/Retention Projected vs. Actual. He noted that he relies on the carriers to do a claims projection. In the middle two years noted in this report, there was fairly significant migration off United Health Care to Blue Cross Blue Shield. This is a comparison of the carriers' projection for each of the four fiscal years as to what the increase was versus the actual claims' experience and what the increase was and then comparing actual to projection. The first year they were actually slightly high in their projection at 92% ratio and went out to left field with 110% when there was a significant migration. Just the opposite is indicated for United Health Care where they projected 105% and so far they are at 90% for the first four months of this fiscal year. The enrollment fluctuation and migration off of United Health

Care negatively impacted the claims experience for Blue Cross. Mr. Eramian asked if Blue Cross had actually projected Cranston Public Schools as being higher than they are today, and Mr. Walsh responded that this was correct. He added that Blue Cross anticipated four months of negative activity.

Mr. Walsh referred to page 3A of this same report and indicated that United Health Care's numbers were reported at the top of the page and noted that United Health changed the claim payment system; they changed the school department from an old platform to a new platform. He added that the amount is up over last year, but it is better than projected. Mrs. White asked that if Blue Cross and United Health Care were

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both projecting higher numbers, why did the school department project lower numbers than what was anticipated. Mr. Walsh responded that it wasn't that the school department projected lower numbers, but rather when the school department was in negotiations with the city about the budget, the school department was running a nine months' claims experience that looked good. Mrs. White commented that both Blue Cross and United Health were projecting higher expenditures for several months. Mr. Walsh responded that this was after the fact. The school department negotiated with the city in early spring when things looked pretty good. Mr. Balducci

added that the school district has to take the underwriters information and project accordingly. Last year, when the school department was negotiating with the city in the spring, they were constantly looking at actual versus projecting. In addition, the school district had to cut \$3 million. There was a lengthy discussion regarding the health care projections. Mrs. White noted that Blue Cross has a much better way of determining increases than the city fathers, some judge or some expert witnesses. Blue Cross's guesses were much closer than the judge's or the expert witnesses. Mrs. Ciarlo added that the school department doesn't have a checkbook for these expenses or money set aside for them.

Mr. Palumbo stated that he remembered being in the court room when the judge took the city accountant's figures over the figures that Mr. Balducci presented. He asked if the city was basing their figures on the actual because it was a good year or for some other reason. In response, Mr. Balducci said that they used year-to-date actuals, and because they had a good year, they were able to do it. Mrs. White noted that this was a foolish thing to do because there were deficits three years prior to that.

Mr. Walsh went on to explain this report in detail. With regard to page 5, Mr. Walsh indicated that both the city and the school department do have an insurance policy on both the Blue Cross plans and the United Health Care claims that protect against large losses. That cost is approximately \$1/2 million per year to protect against catastrophic

claims. Mr. Walsh stated that page 6 of the report is the first of two budget projections. He emphasized on the reports where actuals were running against projected, and it was better in most cases. He used the actual year-to-date average for the first four months as a projection for the next eight months. The projected deficit is \$1.1 million. If the school department has \$2 million in the kitty, they would be looking at a surplus. Mr. Drager asked if the city were in comparable shape to the school department, and Mr. Walsh said that he didn't have the city appropriations so he couldn't answer the question.

Mr. Walsh indicated that page 7 was the worst case scenario using the actuals for the first four months and using the carriers' projections for the next eight months which is a \$2.5 million deficit. He noted that the carriers have been pretty close in their projections year by year, and that this is not out in left field. Mr. Drager added that this is what the city's experts and the judge wanted to do.

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Mr. Walsh referred to page 8 of the report and noted that the \$175,000 reflected the threshold after which the insurance policy will reimburse the school department for large catastrophic losses. There is only four months of data in the system, and in those four months it shows one excess claim in the amount of \$232,000. He also noted that there

were two ongoing claims, one in the amount of \$68,000 and the other for \$63,000. He added that he had to be very careful as to how much information was given on a specific member.

Mr. Drager asked if there was an average age of the employee who works for the school system, and Mr. Walsh responded that he did not have this information with him. Mr. Drager felt this would be a factor that would be necessary in projecting health care costs. Obviously, the older a person is, the more drugs or opportunities for health care would be required. He estimated that the majority of the 2,000 employees in the school department are at least over forty-five to fifty years old or older. This should be a factor used in determining health care costs for the future. Mrs. White commented that it could be a wash because with the younger generation there are many females and there are pregnancies and more pediatrician visits involved with them. The older generation may be taking more prescription drugs, but they are not utilizing the pediatrician and the GYN doctors. Mrs. Ciarlo felt it would be interesting to see how much is spent on both generations.

Mr. Lupino agreed with Mr. Drager that it would be a factor. An increase in medical technology has also become a factor. The public relations surrounding colonoscopies has made more people take part in getting this examination. The doctors and health care providers are saying that if one has a history of this illness in their families, that technology is available to have the examination done at an earlier

age. In addition, there is technology to keep sick newborn babies alive for longer periods of time. Mr. Walsh added that there is new technology available that keeps people healthy and living for a longer period of time. Mrs. White indicated that more people are having these various tests done who normally would not avail themselves of them. All of these things have an impact on the money situation.

On page 9, Mr. Walsh indicated that for July 2003 to June 2004 there were four large losses but nothing extraordinary. There were eight subscribers who incurred 50% of the \$150,000 insurance threshold. To have 3,000 members, and to have twelve people incur large losses and only four to be considered significant, the large losses are not necessarily driving the claims experience, but the overall utilization is driving the cost.

Mr. Walsh noted that pages 12A,B, C, and D reflect monthly reports run for July 2003 to the present and what claims were incurred by individual members above \$7,500. They looked at every man, woman, and child for each month and what claims they incurred above \$7,500.

He noted that for premature babies, it would not be unusual to incur \$1/4 million in claims. There were a number of cancer and heart diagnoses and diabetes as

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the third most significant illness. Three of the major diagnoses is

driving the large losses which is not unexpected. Mrs. White noted that an employee could have a procedure done this month, but Blue Cross may not get the bills for another six months.

Mr. Walsh told the committee that he hoped this report would give them a flavor as to where their dollars are being spent. Mrs. White asked if there was anything being done on the state level to ease the financing relating to medical coverage. Mr. Walsh, in response, said he found it to be just the opposite when United Health announced they had the business for the state. The doctors association complained that United Health Care doesn't pay them enough. There are forces out there that are moving these charges in the wrong direction. The average medical trend, when comparing medical average to prescription drug trend, is still approximately 15% a year. The same claims volume last year versus the same thing this year will cost approximately 15% higher. Increased membership, increased utilization, a bad year with increases, are all major factors to increased health care. He added that he will continue to work with administration to continue to track these costs as much as possible. Mr. Palumbo told Mr. Walsh that he would be interested in seeing reports where spikes have occurred. Mr. Walsh responded that because of federal statute and signed confidentiality agreements with Blue Cross and United Health Care, he must be very careful what information is released. He felt he had given the committee a fairly accurate, yet not violating statute, report regarding the major illnesses surrounding health care costs.

Mr. Eramian referred to the Blue Cross and United Health reports and noted that it was not a good comparison. Mr. Walsh responded that he would like to take the four-month report from United Health Care and consolidate it into similar categories as Blue Cross. He noted that he received this report just today. Mr. Eramian felt that someone was managing the cases differently in one group versus the other. Mr. Walsh responded that there were significantly different populations of people in one group versus the other. There was a general discussion regarding managing claims. Mr. Votto noted that when looking at the population for the school department, there is a much younger group in United Health Care. Mr. Palumbo requested a breakdown of the groups enrolled in the various plans.

**II. Adjourn to Executive Session Pursuant to Rhode Island State Laws
42-46-5(1) Personnel and 42-46-5(2) Contract and Litigation
Superintendent's Evaluation**

It was moved by Mr. Lupino, seconded by Mr. Eramian and unanimously carried to adjourn the work session to Executive Session pursuant to Rhode Island State Laws 42-46-5(1) personnel and 42-46-5(2) contract and litigation/Superintendent's evaluation.

**There being no further business to come before the work session it
was adjourned at
8:15 p.m.**

Respectfully submitted,

**Michael G. Cardarelli, Jr.
Clerk**